Canadian Merrill Ltd.

The Twentieth Annual Report to June 30, 1971

Canadian Merrill Ltd. is our new name

May 14, 1971 was the day when we became Canadian Merrill Ltd. A change reflecting the new streamlined image of your company and its diversification into industries other than mining.

At the same time we designed a logo more in line with our new image. The name Merrill, by which most of you will identify your company, is emphasized by the large M which dominates the logo. The mining cart at the bottom of the logo represents your company's interest in the mining industry, while the diamond drill, dividing the M in two, symbolizes Merrill's continuing search for mineral deposits and its expansion into new industries.

Canadian Merrill Ltd.

Directors

CHARLES BOUFFARD

C. ANTOINE GEOFFRION, Q.C.

RANDOLPH P. MILLS

HUBERT J. MOCKLER

MAURICE SAMSON, O.B.E., C.A.

R. L. SEGSWORTH

FRIDOLIN SIMARD

JEAN-PAUL TARDIF, M.S.C.

Officers

Chairman of the Board
RANDOLPH P. MILLS

President
HUBERT J. MOCKLER

Vice-President
MAURICE SAMSON, O.B.E., C.A.

Secretary-Treasurer
IAN C. MILLER

The Annual Meeting of the Shareholders of Canadian Merrill Ltd. will be held in the Windsor Hotel, Montreal, Canada, Wednesday, the 27th day of October, 1971 at the hour of 11.00 o'clock in the forenoon (Eastern Daylight Saving time).

Transfer agent and registrar
Canada Permanent Trust Company
600 Dorchester Blvd., West,
Montreal 101, Que.

1901 Yonge Street,
Toronto, Ont.

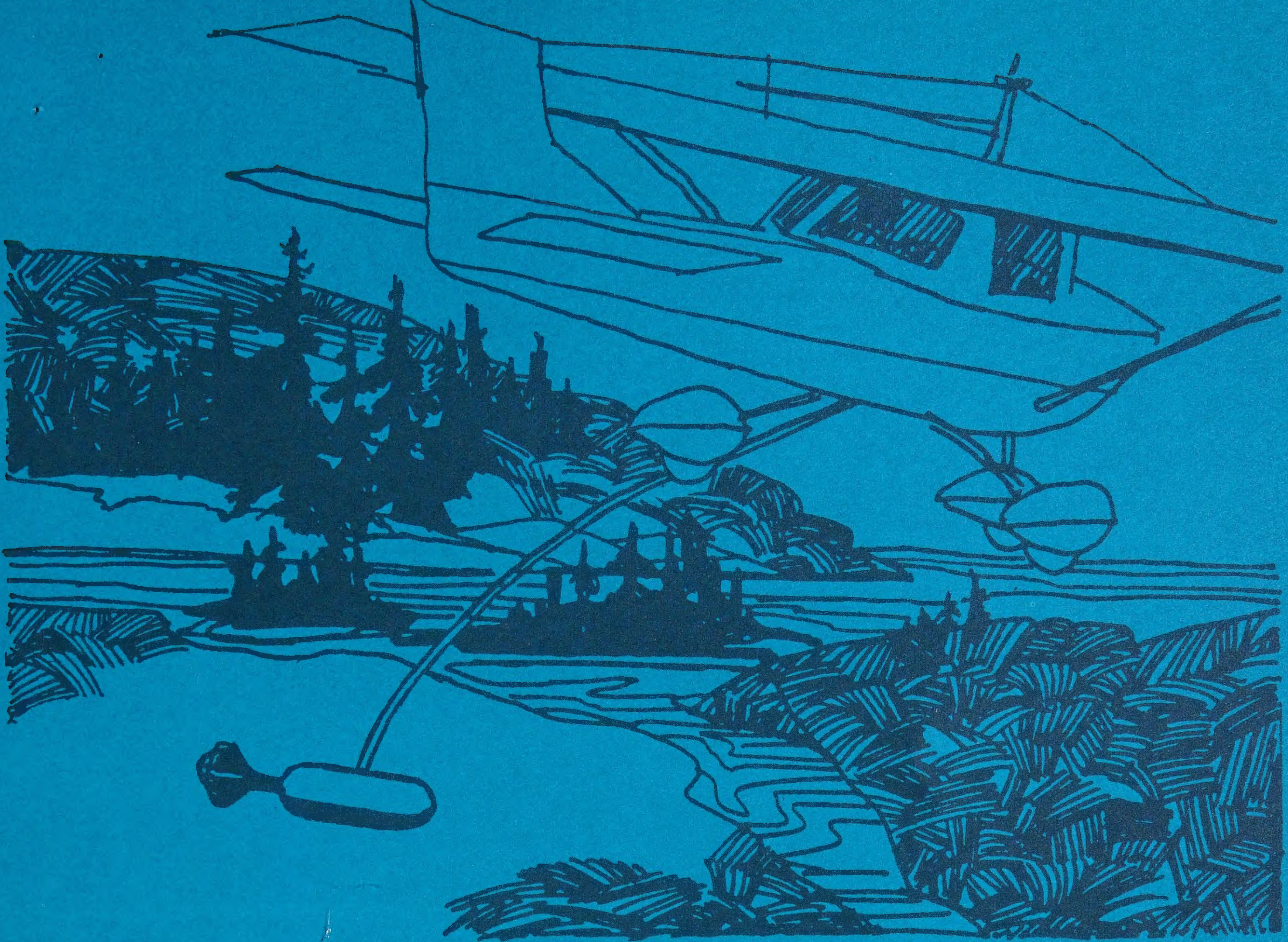
The Canadian Bank of Commerce
Trust Company
20 Exchange Place,
New York, N.Y. 10005

Mine manager
Edward W. Watt,
Chibougamau, Que.

Head office
Suite 400,
621 Craig Street West,
Montreal 101, Que.

Mine office
P.O. Box 5200,
Chibougamau, Que.

Auditors
Riddell, Stead & Co.
Chartered Accountants,
630 Dorchester Blvd. West,
Montreal 101, Que.



Report to the Shareholders

Report to the Shareholders

The Directors submit for your information the twentieth Annual Report of your company for the year ended June 30, 1971. The report contains the Audited Financial Statements, comprising the Balance Sheet, Statement of Earnings and Retained Earnings, and Statement of Source and Application of Funds, the Mine Manager's Report, and the Report of the Exploration Manager on exploration activities carried out during the year.

Earnings

Following several years of profitable operations the company suffered a net loss of $174,995 last year compared to a profit of $309,791 in the previous fiscal period. This was primarily attributable to lower revenues from the Icon Sullivan Joint Venture and higher exploration charges.

Working Capital

Working capital including investments at cost at year end amounted to $4,478,804, down from $4,918,016 at the same time last year.

Milling Operations

The ore treated at the company's facilities was again derived exclusively from the Icon Sullivan Joint Venture ore body. The sink float plant installed at the property late last year has lived up to expectations and has lengthened the life of the mine.

Acquisitions

Canadian Merrill, jointly with Central Mining, an affiliated company, acquired an approximate 45% interest in the shares of Baldwin & Knoll of Edmonton. This company, which provides various services to the oil and gas industry has been operating profitably for over twenty years and is the largest organization of its kind in Western Canada.

In late June an agreement was reached with the shareholders of Provident Resources Management Ltd. of Calgary to acquire their holdings in that company on a share exchange basis. Based on reports prepared by independent petroleum engineers, Provident Resources has reserves of 1.3 million barrels of oil and 62.4 billion cubic feet of natural gas, as well as 167,800 net acres of undeveloped lands spread throughout Western Canada.

On advice of legal counsel, a suit has been filed against Mr. J. P. Sheridan et al of Toronto in connection with our negotiations with him to acquire his various interests in several mining companies (See note 7 of the financial statements).

The policy of seeking suitable long term investments is being continued, particularly in operating companies which are already profitable and have strong management. In this regard it is hoped to announce further acquisitions during the coming months.

The following table presents a summary of results for the year just ended. The figures for the previous years are also given:

	1971	1970	1969
Earnings from operations before general, administrative, and exploration expenses	$ 261,336	$ 712,902	$1,286,242
Per share	$0.24	$0.66	$1.18
Profit from sale of investments (loss)	(8,216)	35,572	862,864
Net earnings for the year (loss)	(174,995)	309,791	940,309
Per share (loss)	($0.16)	$0.28	$0.87
Charges to operations not requiring cash outlay	52,778	111,634	106,213
Increase in working capital (decrease)	(439,212)	417,616	1,147,883
Tons milled	221,481	213,341	205,026
Copper produced (pounds)	12,203,070	13,377,574	13,090,793

Per share figures adjusted to reflect recent one for five share consolidation.

Baldwin & Knoll medium size oil and gas well servicing unit.

Baldwin & Knoll service unit in operation on foothills gas well.

Production

All ore processed in the company's milling plant was derived from the Icon Sullivan Joint Venture deposit, which lies about forty miles north of the town of Chibougamau. A total of 221,481 tons were milled during the year, a modest increase of 8,140 tons from the previous period when 213,341 tons were processed. The average grade of ore declined to 2.84% copper against 3.23% copper, resulting in a drop in total output to 12,203,070 pounds of copper compared to 13,377,574 pounds of copper in the previous year. There was a small improvement in mill recoveries. Generally, all areas of the operations are very close to peak efficiency levels so that it will be difficult to improve this situation during the current year. At the present time and based on known ore reserves, the Icon Sullivan ore body will last at least another three years. An extension of the mine life will depend on several factors including exploration, the ability to treat lower grade material and finally, the pillar salvage program. The latter two factors are to a large extent within the control of the operating staff and to date have responded very well to the efforts applied. Exploration, on the other hand, while having yielded some success to date, is much less determinate. However, there is room for optimism that more ore will be found. On the whole your company's participation in the profits of the Icon Sullivan Joint Venture will continue to be an important part of the over-all picture for some time yet.

Exploration

Unlike previous years, exploration during the past twelve months was concentrated in specific areas. The work carried out consisted of geophysical and geochemical surveying followed by diamond drilling where preliminary results warranted. The majority of our exploration endeavours were conducted in the Province of Nova Scotia where careful geological evaluation indicated the strong possibility of locating a large low grade copper deposit similar to those found in the western cordillera. Although no area has yet been found where the mineralization is sufficiently concentrated to be considered commercial, there has been enough encouragement to lead our technical staff into believing that the original premise, upon which the program was undertaken, is sound. Additional work will be undertaken on specific properties during the next several months.

In addition to Nova Scotia, general exploration was undertaken in Quebec, New Brunswick and northern New York State. Also, as a means of broadening Canadian Merrill's exposure, we participated in two exploration syndicates last year, both of which yielded negative results.

Finally, the company has recently completed diamond drilling on a barite-celestite prospect optioned from the Dorbeck Syndicate near Dorchester, New Brunswick. Although the diamond drilling intersected several sections of barite and celestite, the grade and size are not considered to be economical at this time.

Financial Position

Working capital at the fiscal year end amounted to $4,478,804 and compares to $4,918,016 in the previous year. The decline in working capital is mainly attributable to a drop in accounts receivable from the Icon Sullivan Joint Venture, of which a more detailed explanation is given in the earnings section. The principal asset contained in the working capital is the portfolio of marketable securities, which, at the year end, had a cost value of $3,087,170 against a market value of $2,559,944. The comparative figures for the 1970 fiscal year were cost of $2,538,655 against market value of $2,027,166. The increase in the cost of marketable securities is primarily due to the addition of Baldwin & Knoll Limited. Otherwise the portfolio remained relatively the same as it was at the last year end. The current economic situation is somewhat obscure, making it difficult to obtain a reading on the future trend of stock market activity. However, the securities held in the portfolio are for the most part high grade in nature which should lead the market in any recovery.

Earnings

Sharply lower revenues from the Icon Sullivan Joint Venture, along with a major increase in exploration expenditures, combined to produce a net loss of $174,995 last year. This compares to a net income of $309,791 in the previous period. The reduced revenues from Icon stemmed from two factors. Firstly, and of greatest importance, was the very considerable fall in copper prices and secondly, was the decision taken by the Joint Venture to purchase a preconcentration plant. Canadian Merrill's share of the cost of this plant is being amortised over the expected life of the ore body. As far as can be determined there are no further major expenditures to be undertaken at the Icon property. With respect to copper prices, these have shown a modest recovery from their lowest levels and there is cause to be optimistic that further strength will be witnessed over the coming months.

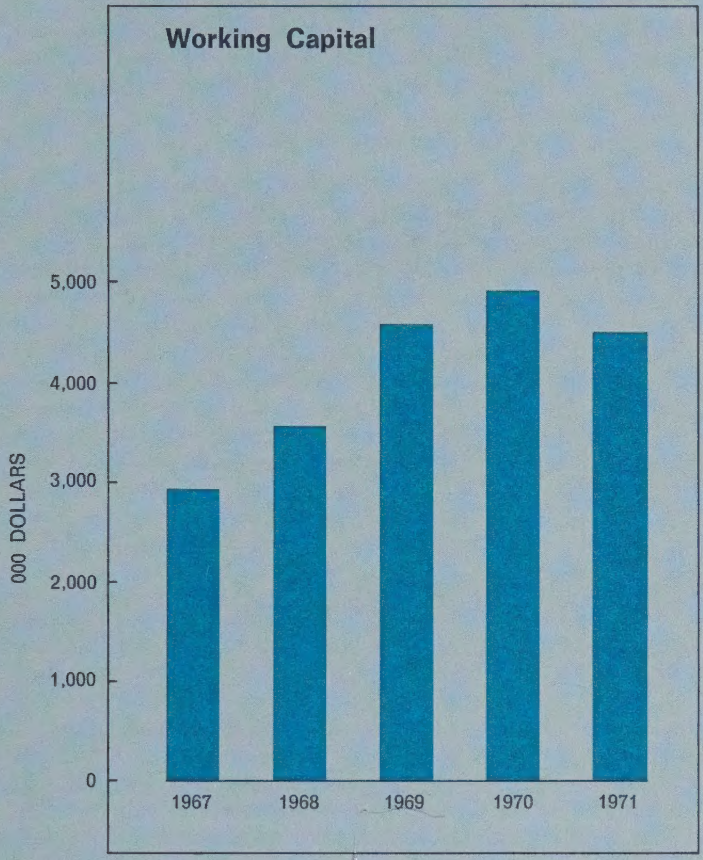
Under these circumstances the company can look forward to much higher income from this source during the coming year. Exploration expenditures are an indeterminate item. Although an attempt is made to budget a certain amount for this activity, it is paramount however, that because of the nature of mining exploration, such expenses remain reasonably flexible since a small outlay in this direction can produce large rewards.

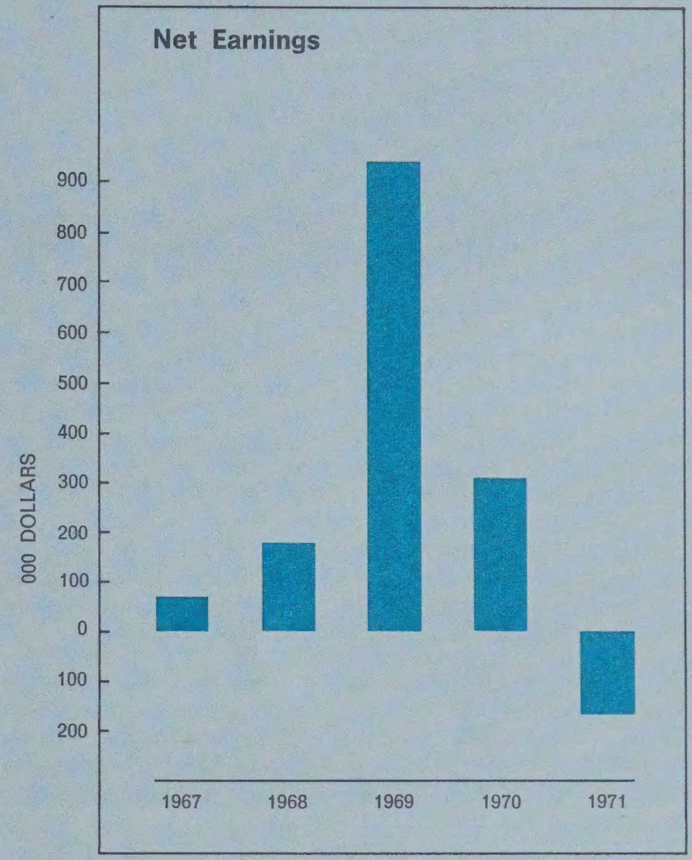
Copper — Review and Outlook

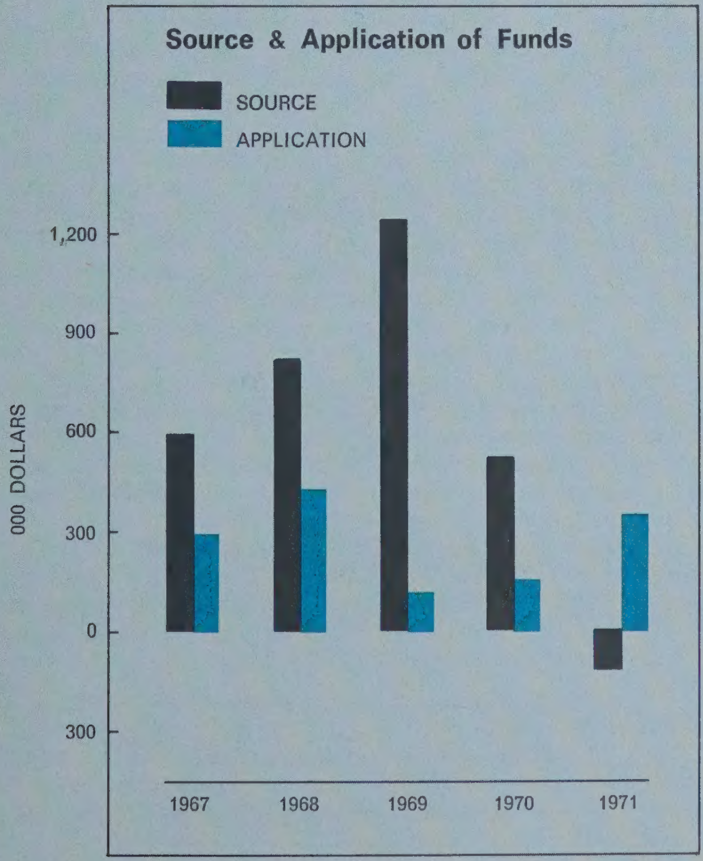
Although Canadian Merrill no longer operates its own mine, it remains, nevertheless, by virtue of its 10% interest in the profits of the Icon Sullivan Joint Venture highly dependent on the health of the copper market for a large share of total income. It may be useful, therefore, to review some of the developments which characterized the copper business during your company's recent fiscal year and from this, attempt an assessment of the next twelve month period.

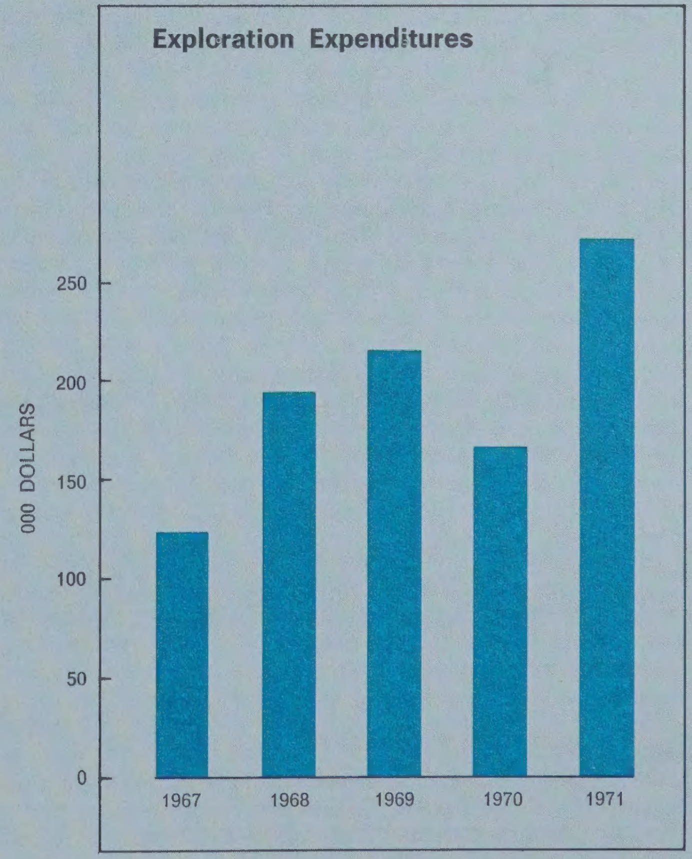
At the beginning of your company's last financial year, copper on the London Metal Exchange, where the bulk of Icon's production is marketed, had already dropped $0.20 a pound from a high of $0.81 a pound reached in March of last year. This slide continued throughout all of 1970 and well into 1971 until prices reached $0.43 a

Five year review









pound, the lowest level since 1965. The sharp drop was a direct reflection of increasing supplies coupled with reduced demand. The latter was, of course, attributable to a world-wide slowdown in industrial activity and a strong reluctance on the part of users to maintain large inventories.

By March of this year, however, as the economy began to show signs of a modest recovery, the low level of inventories in the hands of manufacturers combined to produce a substantial latent demand for the red metal. As a result, prices staged a recovery, having moved up to $0.54 a pound where they currently rest. Viewing the next twelve months from the perspective of recent developments, there is considerable reason for optimism. Foremost is the fact that the world economic situation appears highly improved. At the same time major world producers would seem to be intent on a course to keep supplies in close balance with demand by limiting production. This procedure, joined with strike losses which have occurred in Latin America and the United States, should keep copper from becoming overly plentiful and hence should be highly beneficial in moving prices forward.

In conclusion, therefore, while it cannot be expected that quotations will reach the record levels attained in 1970, there is every reason to believe that they will move slightly higher over the present levels during the next few months. This, in turn, will be important to your company's revenues in the 1971-1972 fiscal year.

General

Despite the reduced profit in the fiscal year compared to the previous period, your management nevertheless views the past twelve months as having been highly significant for the future of Canadian Merrill. The company's strong working capital position enabled us to weather comfortably the recent economic downturn. In addition the company's large cash situation makes it an attractive partner for those companies which are short of capital. In this regard several companies approached Canadian Merrill during the past year with propositions, but unfortunately none of these were able to withstand a critical evaluation. At the same time your company's own staff studied several attractive situations. After careful analyses of many opportunities, Canadian Merrill and Central Mining Corporation, an associated company, purchased equally an approximate 45% in Baldwin & Knoll Limited of Edmonton. This company is engaged in the servicing of oil and gas wells in Western Canada and is the largest company of its kind in this country and has a long record of profitability. More details of this company's operations are given below.

On May 14th, after much consideration and upon the request of the American Stock Exchange, a proposal to consolidate the company's capital on a one new for five old basis, as well as to change the name was placed before the shareholders at a Special General Meeting convened for that purpose. Some 95% of the shares represented at this meeting either by proxy or person voted in favor of the by-laws and thereby authorized the Directors to institute these moves. Consequently, the Merrill Island Mining Corporation, Ltd., ceased to exist and Canadian Merrill Ltd. was born. Letters patent and other approvals have been received from all appropriate regulatory bodies and shares of Canadian Merrill Ltd. were listed on the American Stock Exchange, the Toronto Stock Exchange and the Canadian Stock Exchange on August 16th.

Shortly after the capital revision, discussions were entered into with the majority shareholders of Provident Resources Management Ltd. of Calgary to acquire approximately 51% of the shares of that company for shares of Canadian Merrill. Following some negotiations an agreement was concluded whereby Canadian Merrill would acquire 387,000 shares or 51.0% of Provident Resources in exchange for shares of Canadian Merrill. It was subsequently agreed that Canadian Merrill would also extend the same offer to the remaining shareholders. This has been done and verbal acceptance has been received. The necessary documents are now in the process of preparation and it is anticipated that this transaction will be closed on or about the time of the Annual Meeting of Shareholders.

Provident Resources Management Ltd. is a private company which, in its relatively brief four year history, has enjoyed considerable success in the petroleum industry. While the company acts for its own account, its principal business is to act as a manager of oil and gas drilling programs sold entirely to U. S. investors. Provident receives a fee for its management and has the right to participate in any discoveries on a predetermined formula. More details of this situation are given in a separate section below.

The corporate developments which took place last year are extremely important steps for the future of your company. The acquisition of Provident Resources has nearly doubled the size of Canadian Merrill. More importantly, it has greatly enlarged the scope of our operations by giving this company representation in one of the most dynamic industries in North America. Oil and natural gas production in Canada over the past ten years has risen more than 100% and energy forecasts for the next decade suggest that the rate of growth in this period will be even greater than has occurred in the past. Canadian Merrill's entrance into the petroleum business not only gives the company an added dimension, but also provides a firm foundation upon which future acquisitions and growth can be achieved. Provident Resources has a good cash flow that will increase over the coming years. In this context the oil and gas division will be the most important contributor to your company's income for the next while. However, management would like to point out that our endeavours in this area will in no way diminish our activities in the field of mining exploration. In fact, it is strongly believed that the addition of an office in Calgary will provide a window to the mining developments that have been taking place in western Canada and as a result will increase this company's exposure to mineral opportunities that probably would not occur otherwise.

On the whole, your management is extremely enthusiastic about the future and for the first time in many years it is possible to look forward to a period of rising earnings and increasing growth with some degree of certainty.

Natural gas processing and scrubbing plant.

Drilling rig in operation on Provident Resources land.

Baldwin & Knoll Limited

The company, through wholly-owned and partially owned subsidiaries, is the largest company of its kind in Canada. From its headquarters in Edmonton, Baldwin & Knoll supplies certain services in the field of oil and gas well maintenance to the petroleum industry. Over the past twenty years it has enjoyed a steady growth in both size and earnings. For the year ended June 30, 1971, the company reported net earnings of $225,000 which compares to $209,000 shown in the previous twelve months. Since Canadian Merrill acquired its interest, Baldwin & Knoll, through an 80% subsidiary, has entered into the shallow well drilling business and has so far been operating profitably in this field. More recently the company purchased some new service equipment that will enable it to provide services to the deepest oil and gas wells in this country. As a result, Baldwin & Knoll will retain its leadership in the service industry and should continue to experience rising earnings.

Provident Resources Management Ltd.

The company was incorporated in 1967 to act principally as a manager of oil and gas programs. Since its founding Provident has grown into a medium sized producing oil and gas company, having reserves of 62.4 billion cubic feet of natural gas and 1.3 million barrels of oil. While the company continues to manage oil and gas programs it also participates with the programs in certain ventures, as well as conducting exploration for its own behalf. Practically all of Provident's reserves are producing and for the year ended June 30, 1971, it is estimated that the company generated a cash flow of $218,000 or more than double the previous year's results. For the current fiscal year it is anticipated that cash flow will show a further significant rise.

The acquisition of Provident Resources is an important step for Canadian Merrill in its diversification plans. Of even greater importance in this transaction was the obtaining of a highly competent staff of engineers and geologists. All of the present employees to Provident Resources have indicated their intention to stay with the organization and it is felt that their contribution in the future will be even greater than has been the case in the past. Furthermore, Mr. H. ReKunyk, President of Provident, will join Canadian Merrill in a senior executive capacity and it is expected that he will bring to this company a broad range of ideas and talents.

Quebec Uranium Mining Corporation

Canadian Merrill continues to maintain a significant interest in this exploration oriented company. At the present time Quebec Uranium is busily engaged in following up the results of last year's extensive airborne survey carried out in the Chibougamau region of northern Quebec. The flying program was designed to attempt to find a repetition of the type of mineralization which occurs at the Icon Sullivan property. In this regard numerous anomalies were detected in a similar geological environment to the Icon deposit. These anomalies have all been protected by staking and are currently being examined by ground field crews using modern prospecting techniques, including geological mapping, geophysical and geochemistry. To date several of the anomalies have been eliminated as being caused by features not related to mineralization. Those whose causes cannot be determined by the above methods will be probed by diamond drilling. The company is optimistic over the results of this program to date.

Magnetics International Ltd.

Following several years of unprofitable operations Magnetics International in 1970 generated its first net profit. While the amount was small, it was significant when measured against the large losses of the previous year. The turn in the company's affairs was primarily attributable to the sale of Jones Wet Magnetic Separators. This piece of equipment represents a major advancement in the field of mineral separation and is attracting a great deal of attention from the mining industry. The machines sold and installed to date have outperformed the design capacity, resulting in considerable savings to the users. The excellent performance of this equipment has caused a surge in demand and as of June 30th the company had orders on hand for a total of 19 separators having a gross value of approximately $6,000,000. The majority of these are for delivery in 1972, although some will be shipped and installed this year.

Sales of ferrites, while showing signs of improvement have not lived up to expectations. Nevertheless, despite this area of weakness, the company still anticipates making a profit for the current fiscal year which should be somewhat better than last year's results.

Canadian Merrill holds a substantial investment in Magnetics International and in addition has representation on that company's Board of Directors. We are most pleased with its progress to date and firmly believe that it has a very bright future.

Your Directors wish to express their sincere appreciation to all of the staff for their determined effort and loyal services throughout the year.

Respectfully submitted on behalf of the Board of Directors.

R. P. Mills,
Chairman of the Board.

H. J. Mockler,
President.

Montreal, Quebec.
August 30, 1971.

Mine Manager's & Exploration Manager's Report to the Directors

Exploration Manager's report to the Directors

Summary of Exploration for fiscal year ending June 30, 1971

Some 20 proposals and properties have been examined during the past year.

Jorex as our partner, investigated a well located property in Sturgeon Lake, Ontario by aerial and ground surveys. The results were disappointing and the options were dropped. The prospecting agreement with Freeport Sulphur in the northeastern part of the U.S. was actively conducted. Some favorable areas have been found but mineral right must be investigated and acquired.

The majority of the exploration was carried out in Nova Scotia, New Brunswick and Quebec. About 18 properties were investigated in the Maritime Provinces with various prospecting techniques and 5 were drilled. Several properties were also explored in the areas of Chibougamau and Amos, Quebec.

Technical assistance was given to Quebec Uranium Mining Corporation's aerial survey and continuing ground investigations of anomalous zones.

The company drilled 15 diamond drill holes on 6 separate properties for a total of 6,328 feet. The drilling results did not warrant further investigation.

Since July, 1971, Merrill completed 4,000 feet of drilling while investigating a base metal and industrial mineral prospect, located in southern New Brunswick. The results are disappointing and the option will be dropped.

An active prospecting and acquisition program is continuing in order to find economic mineral deposits.

Respectfully submitted,

Montreal 101, Quebec.
August 12, 1971.

R. L. Alexander
Exploration Manager

Top right: A general view of the Canadian Merrill concentrator at Chibougamau, Que.
Bottom right: Aerial view of the pits and surface workings of the Icon Sullivan mine.

Mine Manager's Report to the Directors

for the year ending June 30, 1971

Milling

The Merrill Concentrator was again operated exclusively on ores of the Icon Sullivan Joint Venture throughout the year.

The tonnage treated was greater than that of last year but not sufficient to offset a drop in the grade of copper and there was a reduction in the amount of copper produced.

The percentage recovery and the grade of concentrate produced showed a further improvement over previous years.

Metallurgical results for the period and a comparison with last year are as follows:

	1971	1970
Tons milled	221,481	213,341
Grade of copper (%)	2.83	3.23
Tons of concentrate produced	22,883	25,453
Grade of concentrate (%)	26.66	26.28
Contained copper in concentrate (lbs)	12,203,070	13,377,574
Recovery (%)	97.41	97.18

Mining

The heavy media ore sorting plant completed in May of 1970 was used to pre-concentrate most of the ore before sending it to the Merrill Concentrator for further concentration. 296,000 tons were processed in the pre-concentrator to provide 169,000 tons of ore and 127,000 tons of reject material.

Mining operations changed as a result of being able to preconcentrate at the mine site. A larger tonnage was handled as lower grade material was up-graded sufficiently to justify the cost of transporting the sorted ore to the Merrill Concentrator for processing. Some lower grade material previously stockpiled was also processed through the preconcentrator.

Mining operations compared with last year are as follows:

		1971	1970
Ore broken	(tons)	301,100	222,868
Ore mucked	(tons)	350,341	214,416
Drift advance	(feet)	6,154	3,820
Waste broken	(tons)	48,686	74,167
Waste mucked	(tons)	57,967	72,336

General

The No. 1 River Diversion was altered by digging a new channel south of the mine workings. This will allow an extension of open pit mining plus pillar recovery in the area of the previous channel.

At the fiscal year end work was in progress to construct a backfilling plant. This plant will supply screened sand hydraulically to fill the rooms and allow improved pillar recovery.

Respectfully submitted,

E. W. Watt,
Mine Manager.

August 18, 1971

Financial Statements

Canadian Merrill Ltd.
(Note 1)

(Governed by the Quebec Companies Act)

Balance Sheet as at June 30, 1971

Assets

Current Assets	1971	1970
Cash and deposit receipts	$ 940,515	$1,543,896
Accounts receivable		
Joint venture (Note 2)	232,004	612,798
Other	150,705	49,137
Current portion of a note receivable	—	100,000
Marketable securities at cost (Note 3)	3,087,170	2,538,655
Inventory of supplies at cost	152,500	148,589
Prepaid expenses	18,790	21,310
	4,581,684	5,014,385
Investments		
Investment in wholly owned unconsolidated subsidiary shares at cost and advances being approximately underlying book value	24,964	21,964
Fixed Assets at cost (Note 4)		
Mill, buildings and equipment	1,312,689	1,309,357
Accumulated depreciation	966,264	941,638
	346,425	367,719
Townsite lots and houses	602,692	602,692
Accumulated depreciation	365,902	365,902
	236,790	236,790
Mining properties	22,543	5,600
	605,758	610,109
Deferred Expenditures		
Joint venture preconcentrator — Share of cost less amortization (Note 5)	162,610	—
Exploration expenses (Note 6)	219,487	135,901
	382,097	135,901
	$5,594,503	$5,782,359

SIGNED ON BEHALF OF THE BOARD:

R. P. Mills, Director

H.J. Mockler, Director

Liabilities

Current Liabilities	1971	1970
Accounts, payable and accrued	$ 83,508	$ 70,189
Current portion of mortgage payable	19,372	26,180
	102,880	96,369
Mortgage Payable		
5¼% secured by townsite houses and repayable by equal monthly instalments of principal and interest extending to 1972	19,372	45,552
Less current portion above	19,372	26,180
	—	19,372
Contingent Liability (Note 7)		

Shareholders' Equity

Capital Stock (Notes 8 & 12)		
Authorized		
2,000,000 preferred shares of $5 each		
2,000,000 common shares of no par value		
Issued		
1,084,068 common shares	4,405,727	4,405,727
Retained Earnings	1,085,896	1,260,891
	5,491,623	5,666,618
	$5,594,503	$5,782,359

The accompanying notes are an integral part of this financial statement.

Canadian Merrill Ltd.
(Note 1)

Statement of Earnings and Retained Earnings
For the year ended June 30, 1971

	1971	1970
Milling Revenue		
Joint venture profit sharing (Note 2)	$ 118,433	$ 531,450
Joint venture toll charge (Note 2)	110,740	106,670
	229,173	638,120
Expenses — Milling		
Administration	9,719	12,484
Insurance, taxes and other	4,798	1,125
Depreciation — Mill, buildings and equipment (Note 4)	24,626	57,563
Amortization — Preconcentrator (Note 5)	28,152	—
	67,295	71,172
Earnings from milling operations	161,878	566,948
Investment and Other Income		
Interest	83,430	147,594
Dividends	23,302	18,754
Gain (loss) on sale of investments	(8,216)	35,572
Profit (loss) on townsite houses including no depreciation in 1971 and $54,071 in 1970 (Note 4)	942	(55,966)
	99,458	145,954
Earnings before general, administrative and exploration expenses	261,336	712,902
General and Administrative Expenses (Note 9)	246,082	321,908
Earnings before exploration expenses	15,254	390,994
Exploration Expenses (Note 6)	190,249	90,204
Net Earnings (Loss) before the following	(174,995)	300,790
Profit on sale of fixed assets		9,001
Net Earnings (Loss) (Note 10)	(174,995)	309,791
Retained earnings at beginning of year	1,260,891	951,100
Retained Earnings at end of year	$1,085,896	$1,260,891
Earnings (Loss) per share	(.16¢)	.28¢

The accompanying notes are an integral part of this financial statement.

Canadian Merrill Ltd.
(Note 1)

Statement of Source and Application of Funds

For the year ended June 30, 1971

Source of Funds	1971	1970
Operations		
Net (Loss) earnings	$ (174,995)	$ 309,791
Charges not involving an outlay of funds		
Depreciation on mill, buildings and equipment	24,626	57,563
Amortization — Preconcentrator	28,152	—
Depreciation on townsite houses	—	54,071
Funds provided by operations	(122,217)	421,425
Note receivable	—	100,000
Sale of fixed assets — at cost less accumulated depreciation	—	12,001
	(122,217)	533,426
Application of Funds		
Joint venture preconcentrator — Share of cost	190,762	—
Increase in deferred exploration expenses	83,586	75,901
Reduction of mortgage payable	19,372	26,180
Purchase of mining properties	16,943	—
Purchase of fixed assets	3,332	25,351
Increase (Decrease) in advance to subsidiary	3,000	(11,622)
	316,995	115,810
Increase (Decrease) in Working Capital	(439,212)	417,616
Working capital at beginning of year	4,918,016	4,500,400
Working Capital at end of year	$4,478,804	$4,918,016

Auditors' report

To the Shareholders
Canadian Merrill Ltd.

We have examined the balance sheet of Canadian Merrill Ltd. as at June 30, 1971 and the statements of earnings and retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at June 30, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal
July 30, 1971

Riddell, Stead & Co.
Chartered Accountants

Canadian Merrill Ltd.

Notes to Financial Statements as at June 30, 1971

1. Status and Name of the Company

Pursuant to a special resolution of the shareholders on May 14, 1971, and confirmed by the issue of Supplementary Letters Patent, the company ceased to be governed by the Quebec Mining Companies Act and shall henceforth be governed by the Quebec Companies Act.

In addition, the company changed its name from Merrill Island Mining Corporation Ltd. (No personal liability) to Canadian Merrill Ltd.

2. Icon Sullivan Joint Venture

Under an agreement dated May 1967, the company performs the milling of copper ore for the joint venture in consideration of a toll charge per ton of ore milled and 10% of net profits of the joint venture. The term of this agreement is for a period of five years expiring in May 1972, and is subject to cancellation on six months notice by either party

3. Marketable Securities

	Quoted or Estimated Market	Cost 1971	Cost 1970
Bonds, debentures and shares at:			
Quoted market value	$1,711,781	$2,239,007	$1,962,880
Estimated market value	848,163	848,163	575,775
	$2,559,944	$3,087,170	$2,538,655

4. Fixed Assets and Changes in Depreciation Policy

Mill, buildings and equipment are located on property leased at an annual rental of $1 under an agreement extending for a period of seven years after the termination of the Icon Sullivan Joint Venture referred to in Note 2.

The assets less salvage value, are being depreciated over the estimated life of the ore body milled under the joint venture agreement. It is now estimated that the life of this ore body will be extended an additional three years to June, 1975, and the provision for depreciation has been adjusted accordingly.

The depreciation on townsite houses previously being calculated over a ten year period has been discontinued in the current year due to the substantial market value in excess of the depreciated value on the books.

As a result of these changes in depreciation methods, the total depreciation charge for the year and the loss for the year were reduced by $88,928.

5. Deferred Expenditure — Joint Venture Preconcentrator

During the year the cost of the preconcentrator plant was deducted from the net profit under the Icon Sullivan Joint Venture agreement.

The company's 10% share of the cost of this plant deducted from profits has been deferred and this amount less 10% share of the estimated liquidating value is being amortized over a period of five years to June 30, 1975.

6. Deferred Expenditures — Exploration Expenses

Location	Deferred at beginning of year	Expenditures during the year	Expensed during the year	Deferred at end of year
Quebec	$ 72,411	$ 41,168	$ 53,579	$ 60,000
New Brunswick	63,347	31,402	94,749	—
Nova Scotia	—	165,275	26,253	139,022
Ontario	—	12,759	12,759	—
British Columbia	—	2,909	2,909	—
New York State-U.S.A.	143	20,322	—	20,465
	$135,901	$273,835	$190,249	$219,487

7. Contingent Liability — Claims and Lawsuits

The company is the defendant in legal actions of $65,910 plus interest from March 1, 1966 and $81,762 plus interest from November 30, 1956. The company has denied any liability in respect of these claims and has taken steps to support its denial of liability.

During the year the company instituted an action in the Supreme Court of Ontario against J. Patrick Sheridan, Sheridan Geophysics Limited and North Canadian Enterprises for damages in the amount of $2,068,000 as well as a separate claim for $58,462. The defendants in this action have counterclaimed against the plaintiff for damages totalling $3,900,000 with respect to the same transaction. Based on the information presently available to legal advisers, they do not believe that the counterclaim would be successful.

8. Capital Stock

Pursuant to approval by the shareholders on May 14, 1971, the company obtained Supplementary Letters Patent consolidating five of its authorized and issued common shares of $1 each, par value into one common share of no par value.

The authorized capital now consists of:
2,000,000 preferred shares of a par value of $5.00
2,000,000 common shares without par value.

Of the 2,000,000 common shares 1,084,068 fully paid shares have been issued for an aggregate consideration of $4,405,727 for the consolidation of the 5,420,340 shares previously issued.

The company has approved the granting of stock options of 75,000 common shares under a management stock option plan approved by the directors during the year. These options are exercisable over a period of five years at prices to be established at a later date and subject to the approval of the appropriate securities commissions.

9. General and Administrative Expenses

Included in this amount are directors' fees of $16,700 ($11,550 in 1970) and executive remuneration of $57,500 ($51,550 in 1970). The company has an agreement with a service corporation to provide office space, accounting services, office employees and supervision of the Exploration Department. Fees paid to this corporation during the year ended June 30, 1971 amounted to $24,000, the same amount as in 1970. A principal shareholder of the service corporation is the Chairman of Canadian Merrill Ltd.

10. Income Taxes

No provision for income taxes is required for the current year as a result of the elimination of non-taxable income and the availability of exploration and depreciation expenses previously unclaimed for tax purposes. The total of these unclaimed expenses which remains to be carried forward against future taxable income amounts to approximately $2,460,000 as at June 30, 1971. In addition losses carried forward for tax purposes are available to offset future taxable income as follows: $288,365 until June 30, 1973 and $63,304 until June 30, 1975.

11. Agreement and Options to Purchase Shares

As at June 30, the company had agreed to purchase 100,000 shares at 20¢ of Quebec Uranium Mining Corporation (No Personal Liability) and 100,000 shares at 25¢ within 90 days. In addition the company had options to purchase 800,000 shares at varying prices. All of which is subject to the approval of the Quebec Securities Commission.

12. Acquisition

The company is presently negotiating the final terms of an agreement to acquire all of the issued and outstanding common shares of Provident Management Resources Ltd. involving the exchange of common shares without par value of the company.

Canadian Merrill Ltd.

Interim Report

for the six months ended December 31, 1972




Canadian Merrill Ltd.

To the Shareholders of
CANADIAN MERRILL LTD.

The Directors take pleasure in submitting for the information of shareholders the consolidated statement of operations and the consolidated statement of changes in financial position for the first six months and second quarter of the current fiscal year. In addition the figures for the same periods in the previous year are included for comparative purposes. Both statements are unaudited.

The accounts presented reflect the full consolidation of all of the companies ~~acquired during the past eighteen~~ months. As can be seen the impact that these various operations have had on earnings is very substantial.

EARNINGS

Gross income was slightly more than $4.0 million while pre tax cash flow was $824,000 or $0.41 a share. After all charges including a provision for income taxes net income was $0.15 a share. Because of the changed nature of the company's business a comparison to last year's results would not be meaningful. Each division has more than met management expectations and we continue to be enthusiastic for the months ahead. In this context shareholders may be interested in more specific details of our individual operating subsidiaries.

OIL AND GAS PRODUCTION

At the end of the year oil and natural gas production was at the rate of 610 barrels per day and 17.0 MMCF per day. Natural gas output reflects the bringing on stream of the company's total gas reserves that are presently being produced under contract with Trans Canada Pipelines. The balance of the reserves are under letter of intent to Pan Alberta Natural Gas and will be brought on stream in late 1974. It is anticipated that daily oil production will rise before the fiscal year end as a result of refracturing some of our existing wells located in the Pembina Field and also from drilling some additional locations in that field.

Canadian Merrill Ltd.

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS
For the six months ended December 31, 1972
(in Canadian dollars)

	Six months to:		Second quarter to:	
	December 31, 1972	December 31, 1971	December 31, 1972	December 31, 1971
REVENUES				
Sales and other operating revenues	$4,041,169	$ 399,601	$2,162,055	$ 236,717
Investment and other income	84,730	35,321	41,651	16,510
	4,125,899	434,922	2,203,706	253,227
EXPENSES				
Costs of sales and operations	2,609,328	75,703	1,404,968	34,259
General and administrative expenses	467,179	220,107	231,360	117,905
Interest on long-term debt	202,361	58,500	99,158	26,776
Exploration expenses	22,180	126,039	22,180	49,874
	3,301,048	480,349	1,757,666	228,814
Income (loss) before the following	824,851	(45,427)	446,040	24,413
Costs incurred in connection with the acquisition of Provident Resources	—	58,686	—	58,686
Pre-tax cash flow income (loss)	824,851	(104,113)	446,040	(34,273)
Per common share	$ 0.410	$ (0.063)	$ 0.222	$ (0.021)
Depletion, depreciation and amortization	336,556	67,767	184,733	36,810
Equity in (income) losses of unconsolidated subsidiary and affiliates	(25,552)	35,637	(14,983)	35,637
Income (loss) before income taxes minority interest and extraordinary item	513,847	(207,517)	276,290	(106,720)
Income taxes				
Current	139,000	—	81,975	—
Deferred	119,000	7,230	54,525	16,230
	258,000	7,230	136,500	16,230
Minority interest in subsidiary	9,026	—	4,700	—
Income (loss) before extraordinary item	246,821	(214,747)	135,090	(122,950)
Gain on sale of drilling rig and related equipment — net of current income tax	58,532	—	—	—
Net income (loss) for the period	$ 305,353	$ (214,747)	$ 135,090	$ (122,950)
Income (loss) per common share				
Before extraordinary item	0.122	(0.131)	0.067	(0.075)
Extraordinary item	0.030	—	—	—
Net income (loss) for the period	$ 0.152	$ (0.131)	$ 0.067	$ (0.075)

PROVIDENT RESOURCES LTD.

As of December 31, 1972 Provident Resources through the Provident Oil & Gas 1972 Program had participated in the drilling of twenty wells. Of this total nine wells were completed as successful gas wells while eleven wells were dry, representing a success ratio of 45%. While this does not match our performance of earlier years it is still nevertheless better than the industry average. At this point in time it is too early to estimate Provident's share of these newly discovered reserves although historically the company has earned a 40% interest or more in each producing well. The above wells represent approximately 50% of the Program planned for the 1972 Drilling Fund. The balance of the Program wells will be drilled during the next few months. At present there are five wells drilling and results are anticipated shortly.

BALDWIN & KNOLL LIMITED

Baldwin & Knoll and L & M Oilfield Equipment, our service subsidiaries are continuing to experience record levels of activity. Currently the demand for well servicing equipment is extremely strong particularly as a result of the decision by a number of oil companies to re-test previously shut in wells. At the same time the higher allowables in existing fields is creating a situation where more servicing will be needed to maintain as well as increase present levels of production. Generally all areas of the oil and gas business have been busier for the past few months than has been the case for several years. This activity has resulted in a demand for all nature of equipment particularly the type supplied by L & M Oilfield. The consensus among most industry experts is that, given the present energy crisis, the amount of oil and gas exploration and development can only increase and should last for some time into the future.

PERCH RIVER MINE

Adverse weather conditions seriously slowed down underground development at the Perch River copper prospect. Consequently as of the year end we were not sufficiently advanced in our plans to be able to reach any conclusions with regard to the economics of this deposit. Subsequent to that time however work has been accelerated and we anticipate

being in a position to make a preliminary assessment in the next few weeks.

On the whole, results for the first half were most gratifying. At the same time, given present levels of activity in the petroleum industry it is fully anticipated that the second half's earnings will show further improvement.

H. J. MOCKLER,
President

R. P. MILLS,
Chairman

Toronto, Ontario
February 19, 1973

The cover shows a drilling operation and a gas plant location in Alberta along with a service unit of Baldwin & Knoll Limited and the Merrill milling plant located in Quebec.

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Canadian Merrill Ltd.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the six months ended December 31, 1972

(in Canadian dollars)

	Six months to:		Second quarter to:	
	December 31, 1972	December 31, 1971	December 31, 1972	December 31, 1971
Working capital was provided by:				
OPERATIONS				
Net income (loss) for the period	$ 305,353	$ (214,747)	$ 135,090	$ (122,950)
Items not involving outlay of working capital				
Depreciation, depletion and amortization	336,556	67,767	184,733	36,810
Deferred income taxes . . .	119,000	7,230	54,525	16,230
Gain on sale before income taxes	(114,532)	—	—	—
Other	(16,526)	35,637	(10,283)	35,673
	629,851	(104,113)	364,065	(34,273)
Long-term bank loans, net of repayments	1,156,543	265,052	(3,630)	(31,838)
Deferred production income . .	29,256	—	(32,928)	—
Sale of marketable securities . .	380,595	—	187,879	—
Sale of property, plant and equipment	177,500	—	—	—
Other	8,333	217	(9,665)	650
	2,382,078	161,156	505,721	(65,461)
Working capital was used for:				
Additions to property, plant and equipment	2,490,755	1,562,750	1,173,351	1,296,343
Purchase of investments . . .	1,381	66,535	201	47,701
Reduction of other long-term debt	90,173	—	25,221	—
Exploration costs deferred . .	85,664	(18,554)	41,244	(18,554)
Capital re-organization expense .	—	60,003	—	60,003
Advances to affiliated companies	105,956	—	105,956	—
Other	49,621	—	35,629	—
	2,823,550	1,670,734	1,381,602	1,385,493
(Decrease) in working capital for the period	$ (441,472)	$(1,509,578)	$ (875,881)	$(1,450,954)

Canadian Merrill Ltd.

President's Address

To Annual Shareholders'

Meeting

and

Interim Report

for the three months

ended September 30,

1973

Canadian Merrill Ltd.

ANNUAL AND SPECIAL GENERAL MEETING

The Annual and Special General Meeting of Shareholders was held on November 13, 1973 in Montreal. Mr. R. P. Mills acted as Chairman of the Meeting and Mr. H. J. Mockler addressed the shareholders present on last year's results as well the current year's status. The text of these remarks is reproduced below.

Shareholders approved Special By-law No. 1 (1973) increasing the authorized capital of the company to 10,000,000 shares of no par value and 2,000,000 preferred shares of a par value of $5.00 each by creating 6,000,000 additional shares of no par value.

The directors elected to serve for the ensuing year were Messrs. M. Baldwin, N. E. Corning, C. A. Geoffrion, Q.C., V. Lyle Hawkes, R. P. Mills, H. J. Mockler, H. ReKunyk, and R. L. Segsworth. At the Directors' Meeting following the Annual Meeting Mr. R. P. Mills was elected Honorary Chairman, Mr. H. J. Mockler, Chairman, Mr. H. ReKunyk, President, Mr. M. Baldwin, Executive Vice-President, Mr. Lyle Hawkes, First Vice-President, and Mr. G. B. Padley, Vice-President—Finance and Secretary.

Price Waterhouse & Co. were reappointed as auditors.

President's Remarks

For the past two years our company has been in a state of metamorphism. This process created some changes in our structure, as well as requiring management to redirect its efforts into areas offering greater scope for growth both in terms of assets and profitability. A change as dramatic as this company undertook, was costly, when measured by time and

profits. However, as you may all see from last year's report, the seeds which we carefully sowed and nurtured during that difficult period have started to blossom and bear fruit.

In this regard I would like to quickly point out some of the highlights of the 1972-73 fiscal year. Gross revenue rose from $1.3 million to $8.0 million. Pre-tax cash flow amounted to approximately $1.6 million or 83 cents a share compared to $79,000 or 4 cents a share. After making appropriate charges for depreciation, depletion and taxes, net income was $501,677; equivalent to 25 cents a share against a net loss of 76 cents a share in the previous year. While these figures in themselves are important, it is even more significant that they represent a turn-around in this company's profit picture which we expect will continue in the years ahead.

At this stage I would like to make a few comments on the individual divisions of Canadian Merrill covering both the past year and the current fiscal period. The largest contributors to our sales and cash flow last year were Baldwin & Knoll and L & M Oilfield Equipment, both of which are in the service business. The continuing high demand for hydrocarbons, combined with an absence of discoveries is placing a strain on existing productive facilities, this, in turn, has been translated into a demand for the types of services which we supply. Moreover, considering the recent developments in the world petroleum situation, it appears that the wells in Canada will be called upon to produce even larger quantities of oil and gas, thereby requiring an even greater frequency of servicing. Consequently, we look for another good year of profits from these divisions. Before turning to our oil and gas operations I would like to mention one situation that we are proud of and which occurred during the first quarter of this fiscal year. During the month of September one of our service units was moved to the East coast to carry out some service functions for one of the major oil and gas operators in that area. This was the first unit to be moved to that locale and we believe that the fact that our company

was chosen further demonstrates our leadership in the service industry.

Our oil and gas subsidiary, Provident Resources Ltd., enjoyed a good year during 1972-73. It carried out the most active exploration program in its history with better than average success. Also a substantial portion of previously shut in gas reserves were brought on stream in the second half, and began generating revenues for the first time. Dealing more specifically with the current year, we have renegotiated all of our gas contracts with Trans Canada Pipe Lines, with the result that starting on November 1st, we will be receiving 26 cents per Mcf for our gas with a 1 cent per Mcf per year escalation feature. These prices, by the way, compare to an average of 16 cents per Mcf received last year. Furthermore, under the new agreement we will be renegotiating these contracts every two years instead of every five. At the same time we have been carrying on discussions with another gas purchaser to buy some of our uncommitted reserves at prices even higher than those being obtained from Trans Canada. It is anticipated that we will be able to conclude these negotiations in the near future. The combination of these two events, that is, the higher price being received from Trans Canada and the potential sale of additional gas to another utility will ensure a substantial increase in cash flow from our oil and gas operations in the years ahead.

On the exploration front, Provident will again manage an oil and gas program this year. In fact, the 1973 Drilling Fund has been registered and we expect to raise about $2.2 million. The bulk of these funds have already been earmarked for a 21 well program mainly in the Plains area of Alberta. Any success in these wells will necessitate follow-up tests so that in total we foresee the possibility of drilling at least 40 wells in the 1973 program.

With regard to foreign activity, our prime emphasis is currently on Peru. In our view, and I might add this is substantiated by others, the Amazon Basin represents one of the few re-

maining large untested sedimentary basins in the world. Drilling efforts by others in this area have already yielded a very high success ratio. Our plans in Peru call for conducting a seismic survey to be followed by drilling. This program will cover about four years and will cost about $6.0 million of which our share will be about $1.5 million.

On the mining front our activities have been primarily restricted to continuing our evaluation of the Perch River Prospect. So far this has consisted of driving an adit into the ore area so that we could get a look at the mineralized structure. Although we have not conclusively proven that an ore body exists on this property, we are fairly confident that this will be achieved by early next year and that we will be mining there, at least on a small scale. In the meantime, we are continuing to receive excellent income from our share of the Icon Sullivan Joint Venture. If copper prices remain at or about the current levels we expect that this source of income will make a significant contribution to our overall earnings this year.

In the area of financing we are in the process of finalizing the necessary documentation on a $3.0 million convertible debenture. These debentures will be offered to a few institutional investors by a major Canadian investment dealer. The funds from the debentures will be used to reduce bank loans and for additions to plant and equipment.

In summary, I would like to say that management is pleased with last year's results, but at the same time we do not expect to rest on our laurels. On the contrary, we will continue to work towards our goal of increasing both assets and earnings on a year by year basis.

In this regard it gives me pleasure to be able to tell you that our first quarter results places us firmly on the road of higher earnings for this year. For the three months ended September 30, gross revenues were $2.2 million up from $1.9 million last year. Pre-tax cash flow amount-

ed to $587,000, equivalent to 29 cents a share, this is a 60% increase over the 18 cents a share we reported last year. Net income at $250,000 or 12 cents a share was 50% higher than the 8 cents reported in the comparable period last year.

Considering that our best two quarters, traditionally the second and third, are ahead of us, we fully expect to maintain the profit trend of the first three months for the full year.

In closing on this optimistic note, I would like to express my appreciation to the Board of Directors and particularly to all of our staff for their valuable help and support last year.

H. J. Mockler

H. J. MOCKLER,
President

Toronto, Ontario
November 23, 1973.

Canadian Merrill Ltd.

Unaudited Consolidated Statement of Operations for the First Quarter Ended September 30, 1973
(in Canadian dollars)

	First Quarter Ended September 30, 1973	Restated First Quarter Ended September 30, 1972
Revenues:		
Sales and other operating revenues	$2,211,624	$1,879,114
Investment and other income . . .	20,741	18,806
	2,232,365	1,897,920
Costs and expenses:		
Cost of sales and operations . . .	1,215,109	1,204,360
General and administrative expenses	263,374	235,819
Interest charges	163,719	103,203
Mining exploration expenses	3,222	—
	1,645,424	1,543,382
Funds generated from operations before current income taxes	586,941	354,538
Depreciation, depletion and amortization	230,291	151,823
Equity in net (incomes) losses of affiliated companies	(13,306)	(10,569)
	216,985	141,254
	369,956	213,284
Income Taxes:		
Current	21,652	57,025
Deferred	153,025	64,475
	174,677	121,500
Minority interest in subsidiaries . . .	2,852	4,326
Income before extraordinary items .	192,427	87,458
Gain on sale of drilling rig and related equipment (net of $56,000 current income tax)	—	58,532
Gain on sale of investments (Note)	30,395	17,491
Reduction of income taxes due to carry forward of prior years' losses	27,449	—
Net Income for the Period	$ 250,271	$ 163,481
Income per common share:		
Before extraordinary item	$ 0.095	$ 0.043
Extraordinary item	0.029	0.038
Income for the Period	$ 0.124	$ 0.081

Canadian Merrill Ltd.

Unaudited Consolidated Statement of Changes in Financial Position for the First Quarter Ended September 30, 1973
(in Canadian dollars)

	First Quarter Ended September 30, 1973	Restated First Quarter Ended September 30, 1972
Working capital was provided by:		
Operations —		
Funds generated from operations before current income taxes	$ 586,941	$ 354,538
Less: Current income taxes	21,652	113,025
	565,289	241,513
Extraordinary items:		
Sale of drilling rig and related equipment	—	177,500
Sale of investments (Note)	151,448	216,989
	716,737	636,002
New long term debt	—	1,160,173
Deferred production income	(46,552)	62,184
Other	4,993	17,998
	675,178	1,876,357
Working capital was used for:		
Additions to properties and equipment	595,818	1,317,404
Repayment of long-term debt	346,152	64,952
Purchase of investments	21,700	1,180
Other assets	14,690	13,992
Exploration costs deferred	82,051	44,420
	1,060,411	1,441,948
(Decrease) Increase in working capital for the period	$ (385,233)	$ 434,409

Note: Certain of the 1972 figures have been restated to reflect the method of presentation adopted in the Annual Report for the year ended June 30, 1973 with respect to gains on sale of investments and the resulting adjustment to reported profits arising from the error made in computing the carrying value of those investments as at June 30, 1972.

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Canadian Merrill Ltd.

Interim Report

for the six months

ended December 31,

1973

Canadian Merrill Ltd.

To The Shareholders

The Directors are pleased to submit the operating results of your company for the second quarter and the first six months of the current fiscal year.

Management is very pleased with the progress made by the Company during a period when interest costs have been extremely high and business activity and enthusiasm depressed by recent governmental actions.

Total revenues of $4.9 million for the first six months were some 22% greater than for the corresponding period last year. The second quarter revenues were substantially higher than the first three months and were well within management's expectations of quarter by quarter increases. Funds generated from operations (Pre-tax cash flow) amounted to $1.24 million equivalent to $0.62 a share, 59% better than for the same six months of the previous fiscal year. Net income after provision for depreciation and income taxes was $0.25 a share compared to $0.13 a share last year. It is anticipated that as total revenues continue to rise a greater portion of the income dollar will accrue to cash flow and net income.

In our first quarter report we commented on a proposed financing of $3.0 million by means of convertible debentures. However, due to market conditions prevailing at the time, it was subsequently decided not to proceed with that offering. In its place and as announced on January 9, 1974, we negotiated with Hudson Bay Mining and Smelting Co., Limited for the purchase by them of a $4,000,000, 15 year, 6½% income debenture, convertible into our common stock. The conversion rate of the income debenture to be one share for each $6.00 of debenture for the first five years and $7.00 a share for the next five years.

The debenture will be repayable at the rate of $400,000 per annum commencing in the sixth year. Concurrent with this debenture purchase, Hudson Bay has agreed to purchase 200,000 shares of Merrill stock from certain shareholders at a price of $5.50 per share. We are pleased to announce that on February 28, 1974 these transactions were completed. Management believes the support and financial assistance resulting from our association with Hudson Bay will enhance the Company's future development. The proceeds from the income debenture will be used to reduce bank loans and for additions to working capital.

OIL AND GAS DIVISION

Provident Resources Ltd., a wholly-owned subsidiary company, successfully raised $2,680,000 (U.S. Funds) through its 1973 drilling

Canadian Merrill Ltd.

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS
For the six months ended December 31, 1973
(in Canadian dollars)

	Six Months to:		Second Quarter to:	
	Dec. 31/73	Restated Dec. 31/72	Dec. 31/73	Restated Dec. 31/72
REVENUES:				
Sales and other operating revenues	$4,909,014	$4,041,169	$2,697,390	$2,162,055
Investment and other income	41,127	49,131	20,386	30,325
	4,950,141	4,090,300	2,717,776	2,192,380
COSTS AND EXPENSES:				
Cost of sales and operations	2,667,225	2,609,328	1,452,116	1,404,968
General and administrative expenses	665,017	467,179	401,643	231,360
Interest charges	356,400	202,361	192,681	99,158
Mining exploration expenses	17,116	22,180	13.894	22,180
	3,705,758	3,301,048	2,060.334	1,757,666
Funds generated from operations before current income taxes	1,244,383	789,252	657,442	434,714
Depreciation, depletion and amortization	502,156	355,938	271,865	204,115
(Gain) Loss on sale of properties and equipment	(79,220)	(19,382)	(79,220)	(19,382)
Equity in net (incomes) losses of affiliated companies	(27,841)	(10,626)	(14,535)	(57)
	395,095	325,930	178,110	184,676
	849,288	463,322	479,332	250,038
INCOME TAXES:				
Current	25,950	139,666	4,298	82,641
Deferred	351,696	119,000	198,671	54,525
	377,646	258,666	202,969	137,166
Minority interest in subsidiaries	4,532	5,114	1,680	788
Income before extraordinary items	467,110	199,542	274,683	112,084
Gain on sale of drilling rig and related equipment (net of $56,000 current income tax)	—	58,532	—	—
Gain (Loss) on sale of investments (Note)	29,454	10,441	(941)	(7,050)
Reduction of income taxes due to carry forward of prior years' losses	12,596	—	(14,853)	—
Net Income for the period	$ 509,160	$ 268,515	$ 258,889	$ 105,034
Income per common share:				
Before extraordinary item	$ 0.232	$ .099	$ 0.137	$ .056
Extraordinary items	0.021	.034	(0.008)	(.004)
Income for the period	$ 0.253	$ .133	$ 0.129	$ .052

fund program offered to United States investors. As of February 26, 1974 the company, through the Provident Oil and Gas 1973 Program, had participated in the drilling of 14 wells. Of this total, 6 have been completed as successful gas wells. The company will further participate through the 1973 Program in the drilling of 34 additional wells. Approximately 12 of the 34 remaining wells will be drilled in the United States where higher oil and gas prices currently prevail.

Drilling for the 1973 Program has been much slower than normal due to material shortages and tight capacities among equipment suppliers and drilling contractors.

Recent oil price increases in the United States have considerably improved the company's production income and enhanced the value of its land holdings. Oil prices have risen to a high of $10.00 per barrel for "new oil" or stripper production affecting 45% of the company's production, while the remaining 55% has received a 35% price increase. Operating income from present United States producing properties has averaged $17,000 per month for the past six months, and is expected to increase to $35,000 per month during the next six months. In addition, any oil and gas discoveries by the 1973 drilling program will receive the higher "new oil" price, which would add to the projected income. As the result of the attractive oil and gas prices, the company will continue to expand its United States holdings and operations.

Canadian Merrill has recently renegotiated its gas sales contracts in Alberta. Previously it had been reported that the Company was receiving an average of 16¢/Mcf for its gas sales. As of November 1, 1973, this price was increased to 26¢/Mcf with price escalation of 1¢/Mcf per year and price redetermination in 1975 and every two years thereafter. The Company's share of gas production affected by this price increase is currently averaging 12,000 Mcf per day.

The Company's shut-in gas reserves in the Sunnynook, Oyen and Sullivan areas have been contracted at 27¢/Mcf commencing November, 1974 and price redetermination in 1975 and every two years thereafter.

Canadian Merrill has also entered into a new gas contract affecting all of its reserves in the Edwand-Hanmore area. This contract, signed with Greater Winnipeg Gas Company calls for delivery of gas from the Edwand field commencing in November, 1974 at an initial price of 42¢/Mcf with price escalation of 2¢/Mcf per year and price redetermination in 1975 and every two years thereafter. The contract calls for a minimum initial producing rate of 10 MMcf per day in the first year increasing to 18 MMcf per day in the second year of the contract.

Assuming the contract sales commence in November, 1974 the

company's gas production will be increased by approximately 8,000 Mcf per day.

PERU

The company and its partners are continuing their extensive seismic program on Block 4 in the Peruvian Oriente. Seismic work has been completed on all navigable streams, and land seismic is now being undertaken. In the meantime other operators in the area are moving in drilling rigs signalling the start of extensive drilling programs. It is estimated that by June 1974 twelve drilling rigs will be operating in the Peruvian Oriente. Sufficient seismic work will have been completed this year to allow commencement of our first test well in 1975.

WELL SERVICING DIVISION

During the first six months of operations rig activity was better than expected with our largest rig operating back in the N.W.T./ Yukon area. For the last half we do not anticipate a decrease in the high level of activity, particularly in Alberta. Since June 30, 1973 we have added two servicing rigs to our fleet which now comprises 39 units. Revenues and operating profits from this division continue to match and improve upon our forecasts.

EQUIPMENT RENTAL AND RESALE DIVISION

Activity in the rental and equipment sales field was above average for the period under review and we anticipate it will remain so during the next six months. At present we have an unprecedented demand for well servicing equipment. Unfortunately due to a lack of equipment available for resale we are unable to meet these demands. Accordingly, we are exploring all possible sources of supply.

MINING DIVISION

As the result of high copper prices experienced by the Icon Sullivan Joint Venture our share of revenue from this source has been very high and accordingly has made a significant contribution to the net operating results for the periods under review. Regretably, this source of income will not continue at the recent levels experienced due to the anticipated depletion of this mine within the next twelve months.

H. J. Mockler.

Toronto, Ontario,
March 1, 1974.

H. J. MOCKLER,
Chairman.

Canadian Merrill Ltd.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the six months ended December 31, 1973

(in Canadian dollars)

	Six Months to:		Second Quarter to:	
	Dec. 31/73	Restated Dec. 31/72	Dec. 31/73	Restated Dec. 31/72
Working capital was provided by:				
OPERATIONS —				
Funds generated from operations before current income taxes	$1,244,383	$ 789,252	$ 657,442	$ 434,714
Less: Current income taxes	25,950	195,666	4,298	82,641
	1,218,433	593,586	653,144	352,073
Extraordinary items:				
Sale of drilling rig and related equipment	—	177,500	—	—
Sale of investments (Note)	193,373	416,194	41,925	199,205
	1,411,806	1,187,280	695,069	551,278
New long term debt	236,132	1,156,543	236,132	—
Deferred production income	(95,497)	29,256	(48,945)	(32,928)
Sale of properties and equipment	90,625	55,000	90,625	55,000
Other	4,243	8,333	(750)	(9,665)
	1,647,309	2,436,412	972,131	563,685
Working capital was used for:				
Additions to properties and equipment	1,160,619	2,545,756	564,801	1,228,352
Repayment of long-term debt	577,140	113,116	230,988	51,794
Exploration costs deferred	91,180	85,664	9,129	41,244
Purchase of investments	22,288	1,380	—	200
Advances to affiliated companies	5,580	105,956	281	105,956
Advances to drilling fund programs	267,225	26,012	258,422	12,020
Other	9,800	—	9,800	—
	2,133,832	2,877,884	1,073,421	1,439,566
(Decrease) Increase in working capital for the period	$ (486,523)	$ (441,472)	$ (101,290)	$ (875,881)

Note: Certain of the 1972 figures have been restated to reflect the method of presentation adopted in the Annual Report for the year ended June 30, 1973 with respect to gains on sale of investments and the resulting adjustment to reported profits arising from the error made in computing the carrying value of those investments as at June 30, 1972.